

November 7, 2002

CONFIDENTIAL INFORMATION- FOR REVIEW PURPOSES ONLY.

Ms. Janis Haug, Assistant City Attorney
Mr. William F. McDonald, Assistant City Attorney
Office of the City Attorney
City of Phoenix
200 West Washington Street, Suite 1300
Phoenix, AZ 85003

Re: Supplemental Appraisal Review
Economy Inn
804 East Van Buren Street
Phoenix, Arizona
Appraiser: XXXXXXXXXX & Company
Date of Value: April 5, 1999
Date of Report: July 29, 2002

Dear Ms. Haug and Mr. McDonald:

At your request and authorization, I have conducted a review of the above referenced appraisal report. The client indicated in the appraisal, is the property owner as of the date of appraisal, Dinubhai Jivan & Deviben Dinubhai Patel, et al, c/o Dale S. Zeitlin. The following are my findings and conclusions regarding the XXXXXX appraisal report. The report which was reviewed is a 3-page letter, prepared by XXXXXX & Company (XXXXXX), titled "Supplement to Appraisal Report dated August 30, 2001 of the Economy Inn at 804 East Van Buren Street, Phoenix, Arizona", plus a 3-page attachment. It is assumed that you have access to that report, which should be read concurrently with this review.

Introduction

You are the client authorizing this review, on behalf of the City of Phoenix, and the parties involved in a redevelopment agreement for the site. The purpose of this review is to check the report for compliance with the Uniform Standards of Professional Appraisal Practice (USPAP), form an opinion as to the adequacy and relevance of the comparable data and analysis which was presented, form an opinion as to the appropriateness of the appraisal methods and techniques used, and form an opinion as to whether the analysis, opinions, and conclusions of the report are appropriate and reasonable. The review was conducted as of the date of this letter, recognized an effective date of value as of April 5, 1999. The property rights analyzed are the fee simple interest. The owner of record are those parties which are mentioned in the paragraph above.

At your request, I have reviewed the XXXXXX letter, and present this review as a supplement to the March 12, 2002 appraisal review I prepared on the XXXXXX original appraisal report of August 30, 2001. This review directly references and incorporates the text and comments of the March 12, 2002 review.

The scope of my review consists of a thorough reading of the above-described appraisal report, review of the previous XXXXXX appraisal on the same property, prior inspection of the subject property generally concurrent with the date of value, and other subsequent dates, inspection and investigation of the comparison property sales and other market data mentioned in the appraisal report, and interviews with various parties and consultants directly or indirectly involved with the subject property, comparison market data, and general hospitality operations within the local market area. I have performed additional market research during the process of completing two appraisals on the subject property, as of December 1, 1998, and also as of April 5, 1999, which were originally independent of this appraisal review. These appraisals are available to you, and copies were included as a portion of the XXXXXX appraisal work file. The conclusion of my appraisal reports were significantly different than that of the XXXXXX report. I have had the opportunity to personally inspect the property on several occasions, interview the representatives of the property owner, and review financial operating statements.

This review report represents my best independent judgment, supported by my own additional research and analysis, plus specific information provided by highly regarded hotel industry consultant sources. It is prepared based on my understanding of the standards generally expected by the Appraisal Institute, and the Uniform Standards of Professional Appraisal Practice, as promulgated by The Appraisal Foundation.

Observations and Conclusions

The July 29, 2002 XXXXXX Supplement to Appraisal is presented in an extremely brief format, without adequate support and rationale for the decisions and opinions presented, and appears to incorporate information which is potentially misleading. This type of appraisal report presentation represents a significant violation of various aspects of the Uniform Standards of Professional Appraisal Practice, particularly Standards Rule 2-1A, and Rule 7. For example, page one of the XXXXXX report includes a quotation from most of a specific footnote from the appraisal report prepared by Nagy Property Consultants, Inc., on the same property, but specifically leaves out one final and significant sentence. This additional sentence reads "This is considered a minor level upgrade, and does not include extensive upgrades/replacements of plumbing fixtures, air conditioning controls, draperies, entry hardware, etc." This omitted sentence specifically qualifies the portion used in the XXXXXX report. This omission is considered misleading.

A brief and unsupported Cost Approach calculation is included in the XXXXXX supplement report. The calculations specifically disregard the potential influence of key factors, such as economic obsolescence, and functional obsolescence. These factors have a potentially large influence in the analysis of the subject property, and should not be disregarded. The land value analysis is potentially misleading, as it utilizes a brief discussion of land sales in the general market area, which emphasize the extreme high end unit prices in this area, involving some properties with significantly different buyer motivations, market influences, etc., than that of the subject property. The land analysis ignored or disregarded other key land sale transactions in the local area, which have stronger correlation to the subject property. The circumstances are considered a potentially misleading situation.

A reconstructed summary presentation of an Income Approach is presented in a five sentence

segment, followed by a chart. Significant questions arise as to the validity of the presentation, as the conclusions are not supported by market data. This segment of the analysis completely ignores or disregards the historic financial operating history of the property, and it utilizes an unsupported deferred maintenance adjustment.

These items highlight several of many potential problems with the appraisal report supplement. To partially reiterate from a previous appraisal review, prepared on the first XXXXXX Appraisal prepared on the same property, my review of the XXXXXX appraisal indicates that it is seriously flawed and inadequate, based on the lack of adequacy and relevance of the comparable data and analysis, leading to conclusions which are not reasonable or appropriate. This conclusion is based on a wide variety of factors. First the reporting format is inadequate; it is presented as a summary report, which states it is to be supplemented by documents in the appraiser's file, and testimony. It is my opinion that the appraisal report itself has not been clearly and accurately set forth, and the analysis leads to a misleading conclusion; this situation is a violation of USPAP Standards Rule 2-1A. In this particular case, the appraisal circumstances are complex, because the appraisal is based on a hypothetical scenario, involving significant renovation, and assumptions regarding substantially enhanced financial operating performance, relative to existing operation. It is an unacceptable appraisal practice to present a complex hypothetical appraisal scenario and conclusions in an abbreviated (summary) written format without insufficient support and explanation. This is a violation of USPAP Standards Rule 7, for the Departure Provision, because in this case the process is so limited, that the results of the assignment are no longer credible.¹ In the case of non-complex assignments, a summary report may be appropriate and acceptable; the subject property appraisal scenario as implied in the XXXXXX report is moderately complex because of the large discrepancy between actual financial operating history, and the XXXXXX projections, therefore it is not appropriate to analyze the property without providing a significant level of support information. Supporting information cited within the XXXXXX report is predominantly inaccurate, or is not directly relevant to this specific appraisal analysis, which leads to misleading conclusions. USPAP Standards indicate that if a written report is presented, as it was here, pertinent supporting factors must be presented "clearly in a manner that will not be misleading". The report must "contain sufficient information to enable the intended users of the appraisal to understand the report properly". Within a written appraisal, even in a summary format, it is not sufficient to hold back key items of support and reasonable explanation, until a future time involving testimony or other elements of discovery. The appraisal analysis as presented in the XXXXXX report represents a very complex situation involving hypothetical substantial renovation of the property, and hypothetical re-marketing of the business operation to a completely different target market than that which previously existed as of the date of value. The XXXXXX report exceeds the reasonableness of judgment in invoking departure from reporting requirements.

From an overall observation perspective, it is noted that the most common analytical method utilized to analyze a commercial property of this type, specifically a small hotel property, is to utilize a Gross Income Multiplier (GIM) analysis. The XXXXXX report utilizes this method, but includes a variety of factors which are not supported by historic operating performance of the subject property, and are not supported by general market performance for alternative properties with similar marketability characteristics. The key factors in GIM analysis are to utilize a reasonable and well supported income projection, and a well supported multiplier. In cases where the gross income multiplier analysis is

¹ USPAP 2002, Statement on Appraisal Standards No. 7.

considered appropriate, most prudent investors and analysts specifically analyze the property based on the recent history of revenue (rather than hypothetical projections), and apply a market supported multiplier. In circumstances where significant physical changes have occurred to the property (significant physical modification and/or project upgrade), and market repositioning of the property is highly likely to occur, it may be appropriate to utilize hypothetical revenue projections, but with appropriate discounting for an absorption period. The XXXXXX report does not demonstrate that these circumstances are in place. The cost allowance provided in this report for minor cure of deferred maintenance issues, is regarded as a cosmetic upgrade to support continued existing operation of the property. This level of improvement, relative to current physical condition, is not considered a significant renovation which could influence a marketing and financial operating enhancement of the property. Even if a significantly more intense upgrade was proposed, a financial operating enhancement is not likely to correspond, due to incurable design, size, location, and other characteristics of the property. The \$55,000 cost allowance discussed in the XXXXXX report allows for short term continued operation of the property within the existing marketing niche, and in no way allows for market repositioning of the property to effectively compete with vastly superior properties, such as the local Holiday Inn Express, Ramada Inn, etc. The local market area has typically under performed metropolitan averages, and significant risk factors continue to exist in this sub-market area which have a negative influence on investor motivations. Given these circumstances, the estimation of a appropriate multiplier factor within the analysis would tend to support the mid to lower end of a range of multipliers, rather than an aggressively high multiplier. The income projections, revenue multiplier, and other factors within the XXXXXX report, are inconsistent with nearly all of these analytical points, leading to a value conclusion which has a minimal level of credibility.

Overall Recommendation

I recommend that the conclusions in the analysis of the report be rejected, considering the extreme level of limitations and weaknesses within the appraisal report. The data and analysis are inadequate to arrive at the indicated final conclusion of value.

Certification

I certify, to the best of my knowledge and belief:

1. The facts and data reported by the reviewer and used within the review process are true and correct.
2. The analysis, opinions, and conclusions in this review report are limited only by the assumptions and limiting conditions stated in this review report and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
3. I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
4. I have no bias with respect to the property that is the subject of this report or to the properties involved with this assignment.
5. My engagement in this assignment was not contingent upon developing or reporting predetermined results.
6. My compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in this review or from its use.

7. My analyses, opinion, and conclusions were developed and this review report was prepared in conformity with the *Uniform Standards of Professional Appraisal Practice*.
8. I did personally inspect the property of the work under review.
9. No one provided significant real or personal property appraisal or appraisal review assistance to the person signing this certification, except for Robert Hayward of Warnick & Company.

Please do not hesitate to call me if you have questions or comments relating to this appraisal review.

For the Firm,
Nagy Property Consultants, Inc.

Steven E. Nagy, MAI
Arizona Certified Real Estate Appraiser 30136